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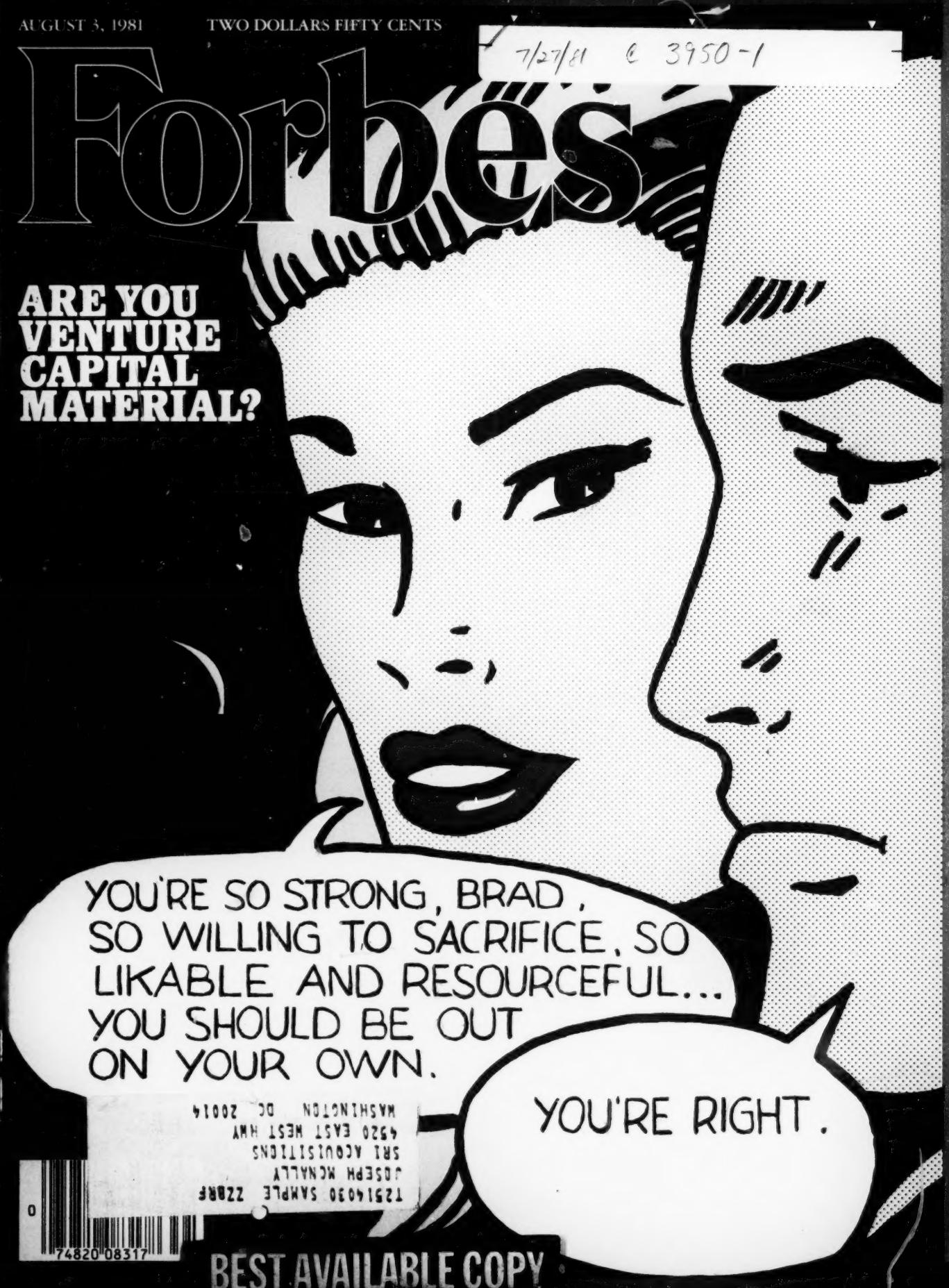

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Volume 128,
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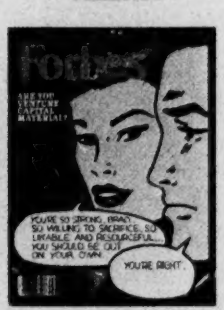
Forbes
ARE YOU VENTURE CAPITAL MATERIAL?
YOU'RE SO STRONG, BRAVE, SO WILLING TO SACRIFICE, SO LOVABLE AND RESOURCEFUL. YOU SHOULD BE OUT ON YOUR OWN.
YOU'RE RIGHT.

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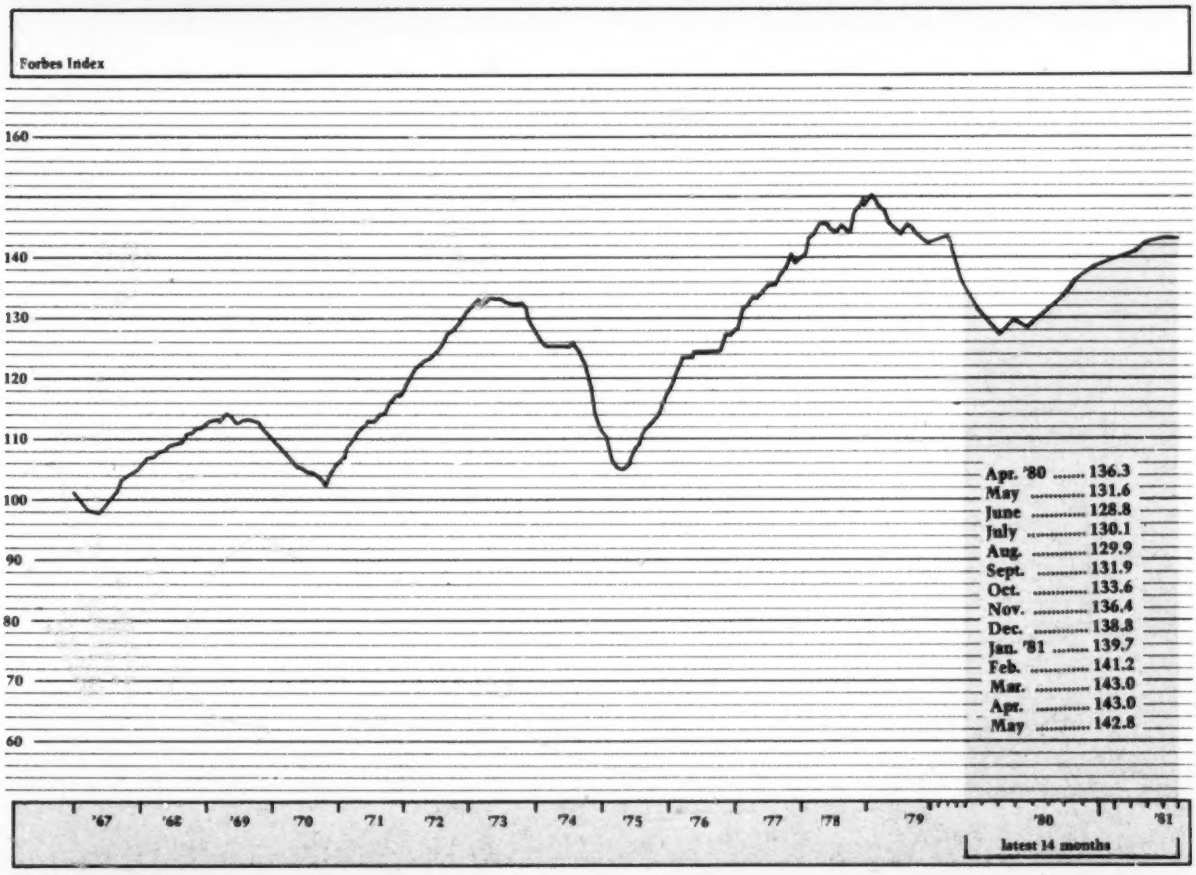
The Forbes Index



The Forbes Index Components

The Index inches downward. The Forbes Index is falling—for the first time in nine months. Declines hit several key components, including new housing starts and the ratio of new orders for durable goods to manufacturers' inventories. Consumer debt also declined by nearly 2% since February. That slows the economy now, but it provides a margin for stepped-up borrowing when the economy rebounds in the future.

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements:

Total industrial production

New claims for unemployment compensation

The cost of services relative to all consumer prices

The level of new orders for durable goods compared with manufacturers' inventories

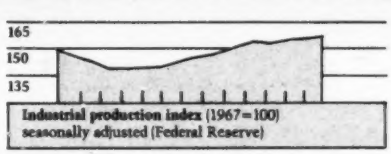
Total retail sales

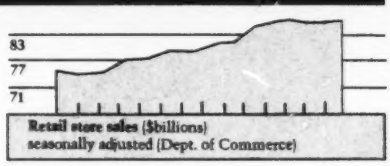
New housing starts

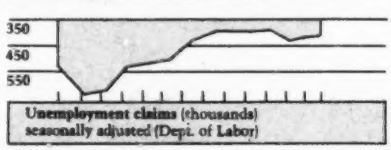
Personal income

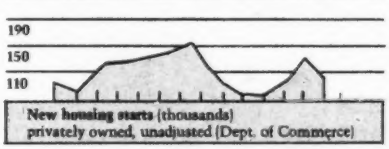
The change in the amount of consumer installment debt outstanding

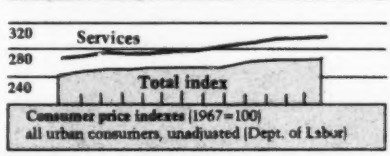
To measure these eight elements, Forbes monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.

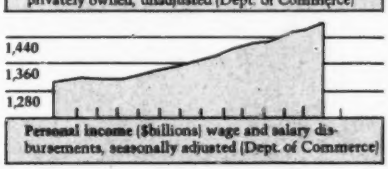


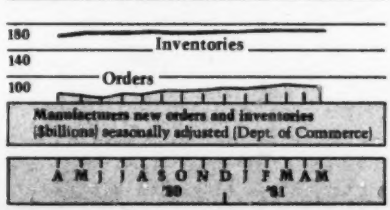


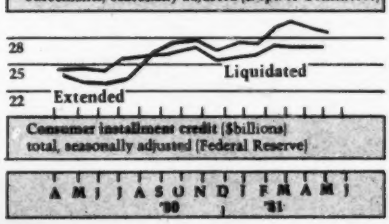












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Personal Affairs

Edited By William G. Flanagan

Alphabet cars

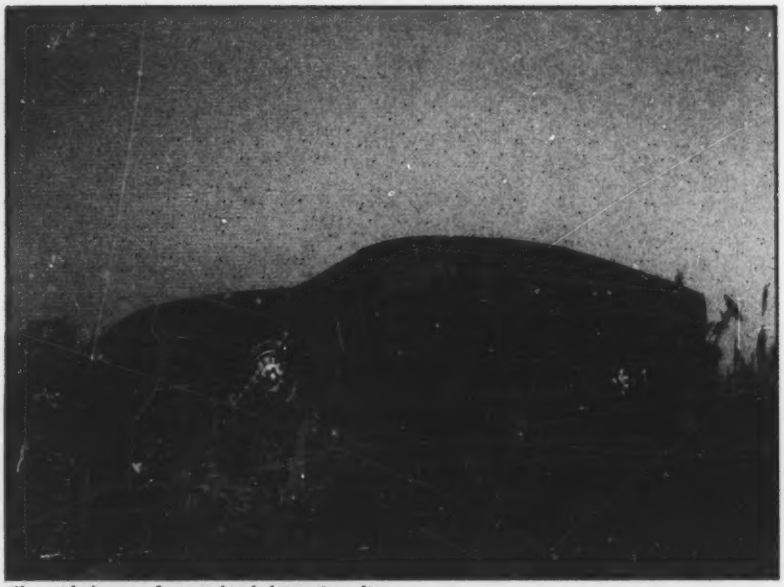
Can it be true? Has Detroit finally met the Japanese challenge? You bet your hubcaps it has.

Right now, the big three auto manufacturers are actually making nifty four-cylinder cars that can hold their own in cost, mileage, size, power and luggage capacity against the offshore competition. (As for styling and reliability, you will have to be the judge on the former; time will tell on the latter.)

The new T, J, A and K cars are certainly worth a look if you are in the market for a small car this fall.

This year alone, Detroit is introducing seven brand-new models designed to hit the imports head on. Chevrolet has already unveiled its 1981-82 Cavalier, Pontiac its T1000 and J2000, and Cadillac its Cimmaron. Chrysler's new Super Ks and GM's Celebrity and A6000 will roll onto the market near the end of the year.

Yet even as these cars are being introduced, Runzheimer and Co., of Rochester, Wis., has already worked up figures on how much they will cost to own and operate *(see table)*.



Chevrolet's new front-wheel-drive Cavalier
Cheaper to run than Honda's Accord.

Runzheimer, consultants in travel and living costs, provides detailed cost information on autos and trucks to fleet owners.

The annual cost of owning and operating the new American cars compares very well with the hottest-selling Japanese models. Note: The figures cited presume you drive 20,000 miles per year and turn the car in after three years or 60,000 miles. It's also assumed that you get the car at a rock-bottom, fleet-owner price—which you won't. But the cost comparisons are still valid. (In general, fleet owners buying in volume pay about $600 to $800 less than the average individual buyer.)

The new four-cylinder Cadillac Cimmaron
The insolent chariot learns humility.

The Chevette, already a popular seller, will still be the least expensive GM product to own and operate, and offers more head room, luggage capacity and almost as much legroom as the new Chevy Celebrity—and will cost about $1,000 less per year to operate. But the front-wheel drive and larger engine on the Celebrity and its longer length are likely to win buyer attention. The Chevy Cavalier, also new this year, likewise has front-wheel drive, but a smaller engine than the Celebrity. The Cavalier will also cost about $160 more per year to run than the Chevette.

The new rear-wheel-drive Pontiac T1000 is a virtual twin of the Chevette in all but styling, but the front-wheel-drive J2000, also new this year, is heavier, longer and has a bigger engine—for a net cost of about $400 more a year.

Ford's letterless Escort is the least expensive American front-wheel-drive car, yet its seating and luggage space are comparable to those of the slightly more expensive, brand new Pontiac J2000.

The top-of-the-line four-cylinder Pontiac is the A6000, which won't be introduced until November. Its specifications are only slightly different from those of the Chevy Citation, also due that month, but it will cost about $500 more per year.

The popular Dodge Aries K has a new cousin, the Super K, a longer,

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Personal Affairs

slightly spunkier model, which will cost about $550 more a year to own. The Aries K, together with the Omni and the Horizon, have been selling extremely well. This year's Runzheimer survey did not include the Omni and Horizon, but they showed up extremely well last year in the cost comparison.

Not surprisingly, the most expensive of Detroit's four-cylinder models is the Cadillac Cimmaron, at $5,541 per year to operate. Take a look at the specs—it hardly differs from the much cheaper Chevette and has a lot less luggage capacity. But, small as it is, Cadillac is its name and that's what you will pay for.

What it will cost for 1982 cars

			Specifications[1]					4-cyl engine[1]			Annual cost for 20,000 miles[2]		
			Front seat head room	Front seat leg room	luggage capacity	weight	overall length	drive unit	displacement	Av mpg	variable	fixed	total
Make	Model	Door	(inches)	(inches)	(cu ft)	(lbs)	(inches)		(ltrs)				
Chevrolet	Chevette	4	38.3	41.6	29.8	2,122	164.9	rear	1.6	30.0	$1,500	$2,459	$3,959
Pontiac	T1000[3]	4	38.3	41.6	29.8	2,150	164.9	rear	1.6	30.0	1,500	2,512	4,012
Ford	Escort	4	38.0	41.5	16.3	2,122	165.0	front	1.6	30.5	1,490	2,590	4,080
Chevrolet	Cavalier[3]	4	37.8	42.1	16.8	2,416	169.4	front	1.8	31.0	1,470	2,656	4,126
Dodge	Aries K	4	38.8	42.6	15.0	2,338	176.0	front	2.2	28.0	1,590	2,702	4,292
Pontiac	J2000[3]	4	37.8	42.1	16.8	2,420	169.4	front	1.8	31.0	1,470	2,882	4,352
Chevrolet	Citation	4	38.1	42.2	21.4	2,508	176.7	front	2.5	25.5	1,720	2,775	4,495
Chrysler	Super K[3]	4	38.9	42.8	16.0	2,368	181.2	front	2.6	27.5	1,630	3,224	4,854
Chevrolet	Celebrity[3]	4	38.1	42.5	20.0	2,800	188.7	front	2.5	26.0	1,700	3,265	4,965
Pontiac	A6000[3]	4	38.1	42.5	20.0	2,800	188.7	front	2.5	26.0	1,700	3,303	5,003
Cadillac	Cimarron[3]	4	37.8	42.1	16.8	2,591	169.4	front	1.8	31.0	1,480	4,061	5,541
Datsun	210 Deluxe	4	36.3	43.6	8.0	2,015	165.0	rear	1.5	32.0	1,430	2,531	3,961
Toyota	Corolla Deluxe	4	37.7	40.7	11.0	2,240	166.3	rear	1.6	30.0	1,510	2,567	4,077
Subaru	DL	SW	38.2	39.3	12.0	2,185	170.0	front	1.8	23.0	1,870	2,466	4,336
Honda	Accord	4	38.0	40.0	10.0	2,249	171.9	front	1.8	26.0	1,690	2,680	4,370

[1]All cars similarly equipped including AT, PS, PB, AC and tinted glass, except Honda (no PB), Datsun (no PS) and Subaru (no PS). [2]Costs include variable expenses (gas at $1.75 per gallon, oil, tires and maintenance), fixed expenses (insurance, depreciation, interest and license), and are based on a 3-year/60,000-mile retention cycle. [3]New Entry.

Source: Runzheimer & Co.

Halfway houses

With mortgage interest rates higher than at almost any time in U.S. history, there have been very few home financing wrinkles left unexplored. The latest is, perhaps, the simplest. Briefly put, it amounts to borrowing against a percentage of the appreciation when the house is sold.

In its most structured form there is the shared appreciation mortgage, or SAM. The SAM, you will recall, is a mortgage arrangement wherein a conventional lender such as a savings and loan gives the home buyer a big break on the interest rate—in return for partial ownership. For instance, the borrower gets one-third off the going mortgage rate—down to, say, 12% these days. In return the lender is entitled to one-third of the appreciation on the house when the buyer sells. The ploy has its drawbacks.

There's a big assumption there, of course—that there will be appreciation. If there is a loss instead, the investor takes a bath and doesn't even have the satisfaction of having a roof over his head. A lesser problem: how to account for an owner's "sweat equity" home improvements.

Nevertheless, when first introduced in Florida last year (FORBES, *Oct. 13 1980*), the SAMs were snatched up like stone crabs. Especially drawn were first-time home buyers who had saved enough for a down payment, only to watch monthly mortgage payments drift out of their income range as interest rates ballooned.

Jerome Grossman, a partner with Oppenheimer and Co., is pushing the concept. He has been trying to get institutional investors, such as pension funds, to buy SAMs from originating lending institutions. Other major Wall Street firms are preparing to leap in—if all goes well, and if interest rates drop.

Grossman recognizes a problem for institutional buyers of these SAMs: "It's a consumer issue. The institution asks, 'Do I really want to be involved with the American homeowner?' "

Unless and until there is a secondary market for SAMs, they will continue to be relatively rare, despite the fact that would-be home buyers and builders are so eager for them.

Meanwhile, builders are taking direct action. One builder, Don Dixon of the Dondi Group in Dallas, has started a Rich Uncle program to sell his condominiums. As the name suggests, Dondi Group matches strapped buyers with willing investors.

The Rich Uncle becomes a copurchaser of the condominium and cosigns a mortgage with the home buyer who plans to live there. The investor matches the down payment, monthly payments for principal, interest, mortgage insurance, taxes and any closing costs or other fees. In return, he can expect one half of the appreciation in market value of the condominium when it is either sold or up for refinancing (which is every three years in Dondi's scheme).

The tenant actually pays more than half of the condo's cost—since he is actually living in the unit. He pays the Rich Uncle "rent" for using his half of the condo. If the monthly payments for interest, principal, taxes and so forth come to, say, $1,000, each owner pays an even $500. But the tenant pays another $150 to the uncle for rent. But both the uncle and the owner-occupant claim equal deductions from the monthly payments.

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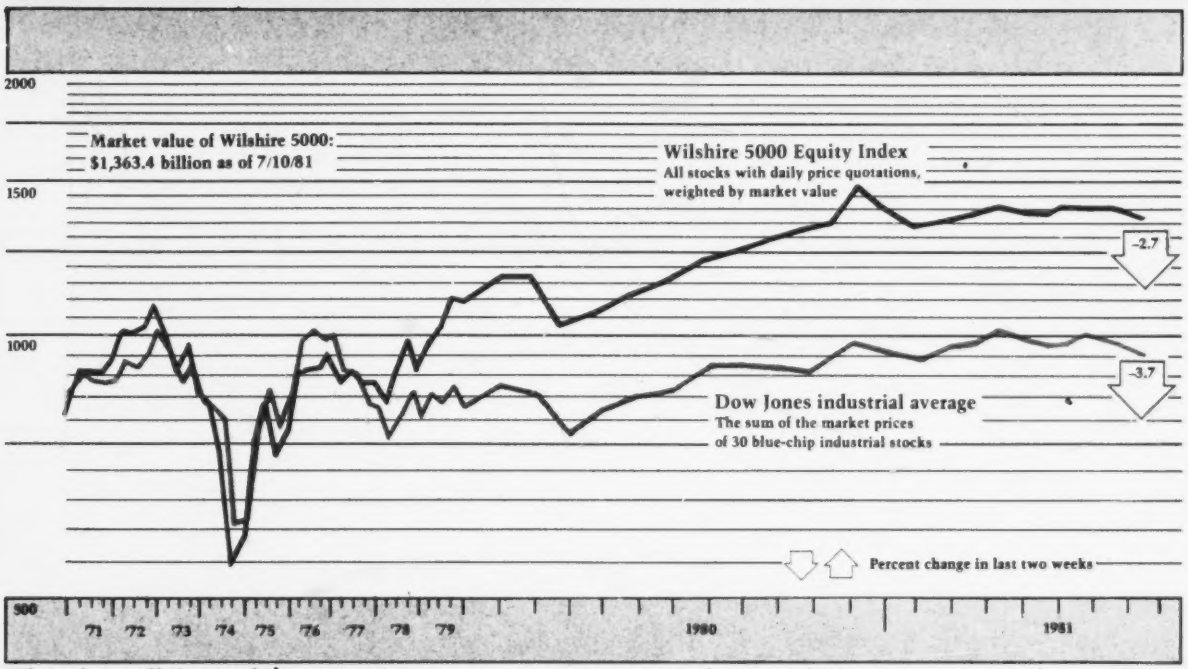
The Forbes/Wilshire 5000 Review



Where have all the good times gone? For most investors, checking stock prices in the newspaper is now solemn reading. The only happy shareholders are those who owned energy companies caught up in merger mania. Over the past two weeks the Wilshire Index fell 2.7%; in four weeks, 3.4%. Beyond that, the numbers tell us that the market lost over $73 billion in value in just a month's time. The smaller, more speculative companies were hit hardest: the NASDAQ Composite, down a hefty 4.2% in two weeks, and the ASE Index, close behind with a 4.0% decline.

It was only in June that the market seemed on the verge of great and wondrous things. What happened? Interest rates were the biggest culprit. Instead of tailing off as many had expected, the prime continued to notch upward. Wall Street also lost stability as the overall economic recovery appeared to falter. The auto industry, for example, now seems headed back into a slump.

The midsummer slump has significantly cut into the 52-week gains of all market indicators. But the downturn has dropped many stocks to much more reasonable multiples and opportunities are opening up for the bargain hunters. The emergence of a new crop of undervalued securities will help the market regain control. The smaller-sized, high P/E stocks took the greatest beating in the recent decline. Watch for these stocks to show the greatest gains when the market starts heating up again.

Close-up On The Equity Markets

Performance of five leading indexes

Percent change	Wilshire 5000	Dow Jones industrials	NYSE Composite	ASE Market Value Index	NASDAQ Composite
in last 4 weeks	-3.4	-5.0	-3.2	-1.2	-5.5
in last 52 weeks	13.7	7.2	11.4	18.6	27.7

Stock performance based on five key investor yardsticks

Percent change	Volatility *		P/E multiple		Dividend yield		Growth profile†		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	-6.0	-0.7	-6.1	-3.0	-1.1	-4.0	-4.3	-2.1	-3.8	-3.4
in last 52 weeks	49.3	13.6	43.2	24.1	6.7	45.9	43.8	20.1	18.4	49.5

* A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.
† A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 7/10/81. Prepared by Wilshire Associates, Santa Monica, Calif.

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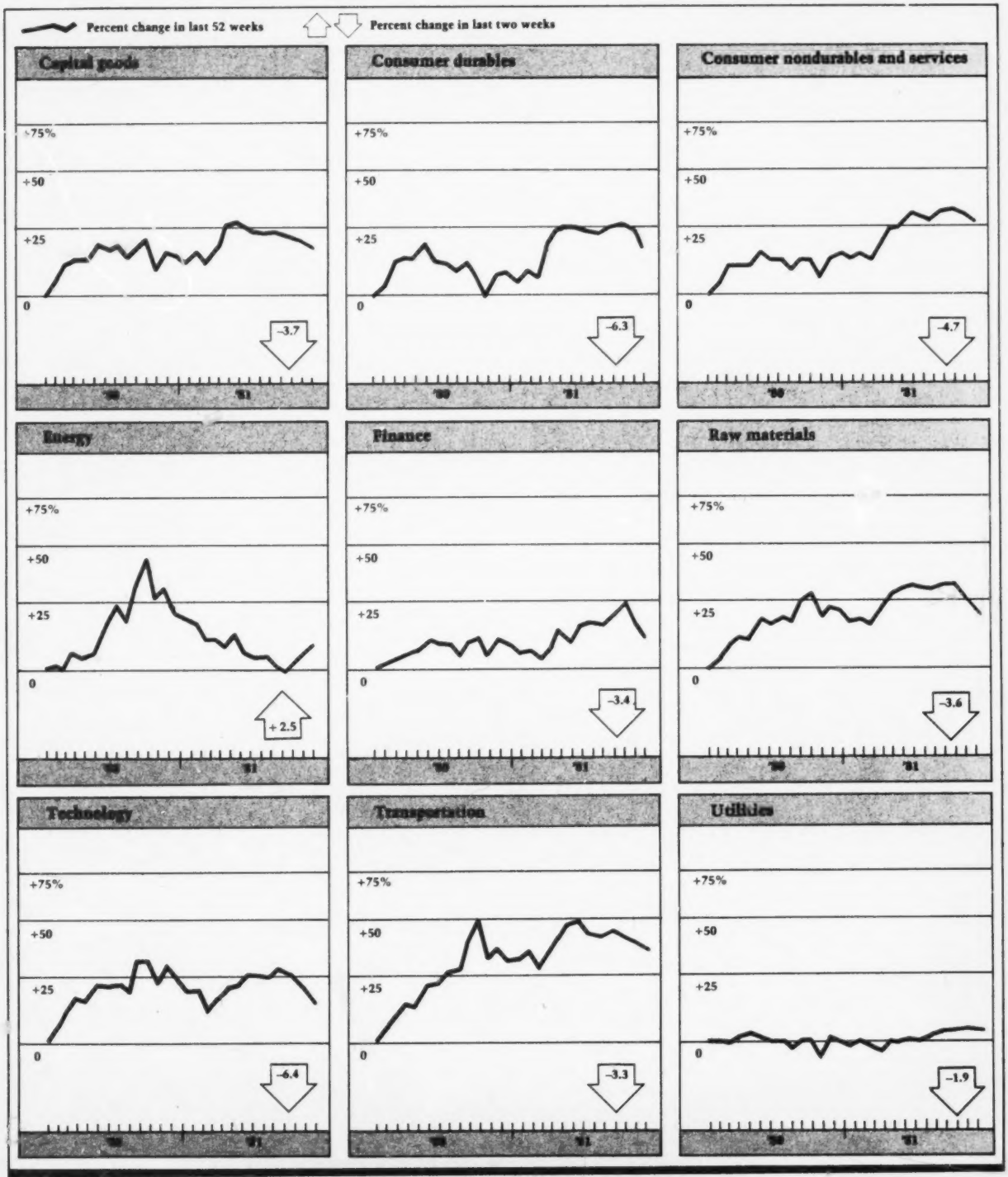
A bear market—with an exception. Energy was the only sector to move ahead during the most recent two-week and four-week periods. The heated high-stakes bidding war for Conoco generated appeal for the group—and stopped, at least temporarily, a significant dive that began in the fall of 1980. Even with their recent gains, however, energy stocks are ahead by a mere 6.6% for the last year.

The biggest two-week drops came from technology, consumer durables and consumer nondurables. The slow but steady backing away from more volatile, high-P/E growth stocks has affected technology more than other sectors. Durables and nondurables, meanwhile, were hurt by expectations for flat second and third quarters. Finance stocks, which posted the steepest four-week decline, seem to be over their case of merger fever; now the group can go back to dealing with interest-rate indigestion.



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Someday the cost of money really will fall. When it does happen, which stocks are most likely to lead the stock market's rally?

Rating the interest plays

Statistical Spotlight

By Steve Kichen and Paul Bornstein

TODAY WALL STREET wallows every time the prime interest rate wiggles. Friday afternoons, when the Federal Reserve releases its money supply figures, make or break many a money man's weekend. Professional investors were talking about lower interest rates even before Ronald Reagan took office. But talk is cheap: Interest levels are still moving upward. Nevertheless, recent hikes in the prime by several major banks may mark a peak.

A drop in the cost of money typically sets off a stock market rally, with interest-rate-sensitive securities at the front of the pack. Where should you be when the prime rate comes down? FORBES picked the brains of several leading analysts for thoughts on those stocks most likely to be leaders in a rally kicked off by declining interest rates. Banks, insurance companies and utilities are among their favorites. Such big borrowers as airlines and conglomerates also rated an honorable mention.

Oil stocks, perceived by many investors as hedges against inflation, may fall still further if rates decline, because of the disinflation attitude that has struck Wall Street. Savings and loan shares, on the other hand, look good technically to at least one analyst. However, the fundamentals of this industry are precarious, so S&Ls don't appear in our tables.

Banks benefit from lower interest rates because there is a wider spread between their cost of funds and interest income on outstanding loans. According to Arthur Soter of Morgan Stanley, "Citicorp ought to be one of the biggest beneficiaries among the banks' stocks." Still, most of the banks in the following tables have performed well over the last 52 weeks, so some of their interest-rate surge may already have been discounted to a certain extent.

As for insurance companies, Robert Colby of Smith Barney thinks Travelers, as well as INA and Aetna, are good technical interest-rate plays. Yet Colby warns, "The fundamentals of the industry aren't what they should be. We're not recommending insurance companies on a fundamental basis right now." Lower rates, however, will increase the value of fixed income portfolios held by insurance companies.

The dividend yields of telephone and electric utilities are more competitive when interest rates are lower. A decline in rates also means that these capital-intensive companies pay

Betting on cheap money

Banks

If money costs tumble, analysts expect the banks listed below to be at the forefront of a market rally. Lower interest rates will make it cheaper for them to acquire funds.

Company	Recent price	52-week price range	—Earnings per share— 1980	latest 12 months	Latest 12-month P/E ratio	—Indicated— dividend	yield	% earned on net worth 1980	Book value per share
BankAmerica	24	30¾–22⅞	$ 4.38	$ 4.20	5.7	$1.52	6.3%	18.6%	$26.55
Chase Manhattan	51⅛	58¼–38¼	10.15	9.55	5.4	3.10	6.0	16.1	70.25
Chemical NY	54⅛	63 –38¼	11.05	12.51	4.3	3.84	7.1	15.5	77.89
Citicorp	25⅜	30⅛–18⅞	4.02	4.13	6.1	1.56	6.1	13.8	31.73
Continental Illinois	39¼	42⅜–27¼	5.75	6.04	6.5	1.80	4.6	16.5	38.77
First Interstate Bancorp*	39¾	44⅞–27⅞	5.70	5.82	6.8	2.04	5.1	17.2	37.24
Irving Bank	50¾	55½–37⅜	9.70	10.49	4.8	3.04	6.0	16.8	64.63
JP Morgan	56⅛	63⅞–41¾	8.33	8.54	6.6	3.10	5.5	16.5	56.37
Security Pacific	39½	43½–28	6.55	6.91	5.7	2.20	5.6	17.4	42.26
Wells Fargo	32⅛	36⅛–23	5.33	5.69	5.6	1.92	6.0	14.6	39.93

*Formerly Western Bancorporation.

less to borrow money. Which electric utilities should you buy? Evan Silverstein of E.F. Rothschild, Unterberg, Towbin feels that "lower-tier utilities are likely to have a stronger move than higher-quality companies because they rely on the financial markets to the largest degree. What's more, the higher-quality companies have shown better performance in the recent rallies. That leaves room for the second-tier companies to move."

Yet many money market sages—including Salomon Brothers' influential economist Henry Kaufman—firmly predict that interest rates are still headed upward. If you hold a contrary view, one or more of the stocks listed here might meet your investment objectives. As an added plus, many of these issues offer relatively handsome current yields that you can "lock in" by buying now. But if instinct—or whatever system you use to evaluate the market—tells you that rates have yet to peak, then you may as well hold off. Remember, interest sensitivity works both ways. If rates really are headed higher, these stocks will be even cheaper some time in the future.

Betting on cheap money

Insurance companies

On a fundamental basis some of these underwriters don't get high ratings. But their shares offer speculative appeal if interest rates drop.

Company	Recent price	52-week price range	—Earnings per share— 1980	latest 12 months	Latest 12-month P/E ratio	——Indicated—— dividend	yield	% earned on net worth 1980	Book value per share
Aetna Life & Casualty	38¾	44 –30	$6.30	$5.98	6.5	$2.32	6.0%	17.7%	$40.43
American International Group	56½	63¼–42⅜	4.99	5.36	10.5	0.40	0.7	22.6	28.06
Capital Holding	21⅝	24¾–16	3.20	3.16	6.8	1.20	5.5	14.0	24.68
Connecticut General	48¼	57½–37⅞	7.66	7.73	6.2	1.76	3.6	16.6	54.06
Continental Corp	28	31⅞–21⅞	3.74	3.71	7.5	2.40	8.6	10.5	41.39
General Re Corp	76⅝	83 –45⅝	7.08	7.36	10.4	1.76	2.3	23.0	38.82
INA Corp	43⅜	50¾–33⅞	7.11	7.15	6.1	2.40	5.5	18.1	46.04
Mission Insurance Group	46¼	49¼–32½	5.11	5.32	8.7	1.00	2.2	31.9	21.31
St Paul Cos	46⅜	51 –34⅞	5.27	5.61	8.3	2.32	5.0	11.8	49.76
Travelers	46⅞	54 –35¼	8.63	8.58	5.5	2.88	6.1	15.8	62.16

Electric utilities

The high dividend yields of these utilities will look even more attractive if interest rates come down. All of these companies now sell for less than book value.

Company	Recent price	52-week price range	—Earnings per share— 1980	latest 12 months	Latest 12-month P/E ratio	——Indicated—— dividend	yield	% earned on net worth 1980	Book value per share
American Electric Power	16⅞	19⅜–15⅜	$2.41	$2.28	7.4	$2.26	13.4%	11.4%	$20.86
Cincinnati G&E	15⅞	19⅛–14	2.25	2.42	6.6	2.10	13.2	11.0	19.96
Commonwealth Edison	20	22⅛–16¼	2.97	2.91	6.9	2.60	13.0	10.3	27.02
Consolidated Edison	28⅜	30½–21⅛	4.67	4.66	6.1	2.96	10.3	10.9	45.11
Duke Power	19⅛	20⅛–15½	3.08	3.08	6.2	2.04	10.7	14.0	22.77
Middle South Utilities	12¼	14 –10⅝	2.01	2.06	5.9	1.62	13.2	10.8	17.75
Pacific G&E	21¼	24¾–19⅝	3.60	3.48	6.1	2.72	12.8	12.1	30.05
Public Service E&G	18	21 –16	3.13	3.30	5.5	2.44	13.6	12.1	26.99
Southern Calif Edison	24¾	28 –22⅞	3.50	3.54	7.0	2.96	12.0	10.2	33.09
TECO Energy	19¼	22¾–16⅛	3.12	3.37	5.7	1.72	8.9	17.4	19.55

Other interest plays

Some professionals think shares in these companies—other big borrowers—will be among the leaders of a rally that should begin if interest rates fall.

Company	Recent price	52-week price range	—Earnings per share— 1980	latest 12 months	Latest 12-month P/E ratio	——Indicated—— dividend	yield	% earned on net worth 1980	Book value per share
American Express†	46	54⅜–31⅜	$5.27	$5.32	8.6	$2.00	4.3%	20.6%	$30.52
American Tel & Tel	55¼	58¾–45	8.19	8.28	6.7	5.40	9.8	13.0	65.32
Beneficial Corp	22¼	25⅜–18¼	3.45	3.17	7.0	2.00	9.0	9.8	36.54
General Tel & Elec	28¾	32 –24½	2.94	3.55	8.1	2.72	9.5	10.1	29.72
Walter E Heller Intl	25½	27⅜–17⅞	3.61	3.68	6.9	1.30	5.1	14.0	28.01
Skyline	16½	19⅜–10⅜	0.54	0.60	27.5	0.48	2.9	5.4	10.09
Transamerica	22⅜	26¼–16¼	3.75	3.76	6.0	1.28	5.7	18.5	22.78

†Excludes Shearson Loeb Rhoades.